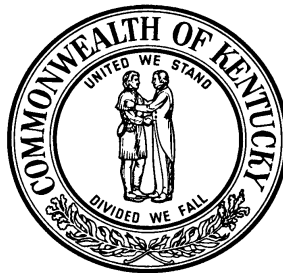


**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period
April 29, 2006 Through November 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period
April 29, 2006 Through November 30, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 20, 2006 for the former McCracken County Sheriff. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$19,429,778 for the districts for 2006 taxes, retaining commissions of \$644,095 to operate the Sheriff's office. The former Sheriff distributed taxes of \$18,767,055 to the districts for 2006 Taxes. Taxes of \$2,661 are due to the districts from the former Sheriff and refunds of \$895 are due to the former Sheriff from the taxing districts.

Report Comments:

- Internal Controls Over Financial Reporting Should Have Been Stronger
- The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of The Month
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

Deposits:

On November 30, 2006, \$6,606,199 of the former Sheriff's deposits were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$6,606,199

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2006 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENTS AND RECOMMENDATIONS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Danny Newberry, McCracken County Judge/Executive

Honorable Frank Augustus, Former McCracken County Sheriff

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the former McCracken County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006. This tax settlement is the responsibility of the former McCracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former McCracken County Sheriff's taxes charged, credited, and paid as of November 30, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Danny Newberry, McCracken County Judge/Executive

Honorable Frank Augustus, Former McCracken County Sheriff

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Internal Controls Over Financial Reporting Should Have Been Stronger
- The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of The Month
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen

Auditor of Public Accounts

October 16, 2007

MCCRACKEN COUNTY
FRANK AUGUSTUS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 29, 2006 Through November 30, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,799,578	\$ 3,646,026	\$ 8,996,214	\$ 3,445,813
Tangible Personal Property	260,768	946,500	1,853,062	1,903,712
Increases Through Exonerations	536	936	2,095	2,059
Franchise Taxes	48,573	64,383	100,116	
Additional Billings	5,959	5,458	23,958	7,239
Penalties	7	10	24	1
Adjusted to Sheriff's Receipt	(3)	67	132	2
Gross Chargeable to Sheriff	<u>3,115,418</u>	<u>4,663,380</u>	<u>10,975,601</u>	<u>5,358,826</u>
<u>Credits</u>				
Exonerations	10,077	15,077	34,004	15,649
Discounts	47,926	73,206	172,397	87,537
Official Receipt - Incoming Sheriff	586,715	817,527	1,959,588	845,263
Uncollected Franchise Taxes:	<u>3,634</u>	<u>5,398</u>	<u>9,449</u>	
Total Credits	<u>648,352</u>	<u>911,208</u>	<u>2,175,438</u>	<u>948,449</u>
Taxes Collected	2,467,066	3,752,172	8,800,163	4,410,377
Less: Commissions *	<u>105,138</u>	<u>131,224</u>	<u>220,004</u>	<u>187,729</u>
Taxes Due	2,361,928	3,620,948	8,580,159	4,222,648
Taxes Paid	2,359,756	3,616,714	8,570,895	4,219,690
Refunds (Current and Prior Year)	<u>2,444</u>	<u>3,271</u>	<u>7,854</u>	<u>3,293</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (272)</u>	<u>\$ ** 963</u>	<u>\$ 1,410</u>	<u>\$ (335)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY
 FRANK AUGUSTUS, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period April 29, 2006 Through November 30, 2006
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	9,508,820
4% on	\$	261,906
2.5 % on	\$	8,800,163
1% on	\$	848,889

** Special Taxing Districts:

Library District	\$	(133)
Health District		(62)
Extension District		(16)
Mental Health		(22)
Paducah Junior College		22
Reidland Fire		554
Hendron Fire		(17)
West McCracken Fire		(37)
Concord Fire		40
Lone Oak Fire		634
City of Lone Oak		(1)
Melber Fire		1
		<hr/>

Due Districts or

(Refunds Due Sheriff)

\$ 963

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

November 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
November 30, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of November 30, 2006, the former Sheriff's deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, November 15, 2006, \$6,606,199 of the former Sheriff's deposits were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$6,606,100

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2006 through November 30, 2006.

Note 4. Interest Income

The former McCracken County Sheriff earned \$49,960 as interest income on 2006 taxes. As of October 16, 2007, the former Sheriff owed \$977 in interest to the school district and \$3,654 in interest to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Danny Newberry, McCracken County Judge/Executive
Honorable Frank Augustus, Former McCracken County Sheriff
Honorable Jon Hayden, McCracken County Sheriff
Members of the McCracken County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former McCracken County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006, and have issued our report thereon dated October 16, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McCracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Internal Controls Over Financial Reporting Should Have Been Stronger

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former McCracken County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of The Month
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 16, 2007

COMMENTS AND RECOMMENDATIONS

MCCRACKEN COUNTY
FRANK AUGUSTUS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

As of November 30, 2006

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of The Month

The former Sheriff did not distribute taxes collected during the preceding month by the tenth of each month. For the months of May and June of 2006, the former Sheriff's franchise taxes collections for the taxing districts totaled \$38,474 and \$44,413 respectively. These taxes were not distributed to the taxing districts until August 2006. KRS 134.300 requires the Sheriff to report and distribute each month's tax collections by the tenth of the following month. The former Sheriff should have complied with KRS 134.300 by distributing tax collections by the tenth of the following month.

Sheriff's Response: No response

The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2006 tax collections, the former Sheriff earned interest of \$49,960 on his tax account, distributing \$21,085 to the school and \$24,244 to his fee account. However, the former Sheriff did not pay the interest to the Board of Education or the fee account on a monthly basis. As of October 16, 2007, the former Sheriff owes the McCracken County Board of Education \$977 and the fee account \$3,654. We recommend the former Sheriff comply with KRS 134.140(3)(b) and (d) by paying this interest to the school and fee account.

Sheriff's Response: No response

INTERNAL CONTROL - MATERIAL WEAKNESS:

Internal Controls Over Financial Reporting Should Have Been Stronger

The former Sheriff's 2006 outgoing tax settlement was materially misstated. The audited tax settlement has been adjusted to reflect the correct amounts. This misstatement was primarily the result of a \$2,829,433 overstatement of taxes charged to the Library taxing district. Taxes charged to the former Sheriff for the Library taxing district on his 2006 settlement totaled \$4,592,593, while actual taxes charged on the official receipt were \$1,763,160. Other misstatements noted on the former Sheriff's tax settlement included misclassifications and mathematical errors. These misstatements were the result of human error and could have been detected by a thorough review of the former Sheriff's tax settlement. This review should have included tracing amounts on the settlement to the source documentation, recalculating these amounts, and also checking the mathematical accuracy of the settlement. The former Sheriff or his designee should have performed such a review on the 2006 outgoing tax settlement in order to strengthen the controls over financial reporting and to lessen the chance of material misstatement.

Sheriff's Response: No response

